

CHARTING YOUR COURSE



THE STATE OF MAINE DEFERRED COMPENSATION PLAN NEWSLETTER

August 2002

Setting Your Sights on Saving. If you have retirement savings plan accounts with previous employers, it can be tempting to cash in your account balance from those plans. But, if you do that, a substantial part of your retirement nest egg will be used to pay taxes immediately and an additional penalty may apply. On the other hand, if you choose to roll over any previous retirement account balances into the State's Deferred Compensation Plan, it can mean a big boost for your retirement savings with no immediate tax consequences. Thanks to the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA, pronounced "egg tra"), the State's Plan can now accept rollovers from certain types of retirement plans.

WHAT'S IN THIS ISSUE

Rollovers Into the State Plan Can Help Keep Your Retirement Savings on Track

Investment Fund Details



ROLLOVERS INTO THE STATE PLAN CAN HELP KEEP YOUR RETIREMENT SAVINGS ON TRACK

If you worked for one or more employers before joining the State of Maine, you may have several retirement savings plan accounts. Trying to manage these different accounts can be confusing and time consuming, particularly when you want to maintain diversity and a targeted asset allocation for your total tax-deferred retirement savings. Rolling over your other savings plan accounts into the State's Deferred Compensation Plan allows you to combine your tax-deferred retirement plan savings in one place. In addition, as a participant in the State's Plan, you have access to local financial services organization representatives who can help you develop a plan to meet your personal financial needs.

What Is a Rollover?

A rollover occurs when you take a distribution from one qualified retirement plan and then deposit all or part of that amount into another qualified plan. Rollovers allow you to combine your investments into one account. And, if you make a *direct* rollover, the tax deferred status of your savings will continue.

If you currently participate in the State's Deferred Compensation Plan, you may roll over pre-tax money that you saved in other eligible retirement plans, including money from another governmental 457(b) plan, a 401(k) plan, a 403(b) plan or an IRA (Individual Retirement Account). You are not allowed to roll over money that has already been taxed into the State's Plan.

If you are younger than age 59½ when you receive a distribution from the Plan, the portion of your distribution (and any earnings) attributable to the rollover from a 401(k) or 403(b) plan or an IRA generally will be subject to an early withdrawal penalty tax of 10%.

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INVESTMENT FUND DETAILS

IMPORTANT NOTE: The information presented here is not intended as investment advice. Its purpose is to help you understand the investment options available through the State of Maine's Deferred Compensation Plan. Your financial strategy and investment choices are entirely your own and should reflect your personal needs and circumstances. State of Maine personnel, by federal law, cannot provide investment advice. For more information, you may want to consult with a professional financial advisor. The investment information shown is current as of June 30, 2002.

Please note that Hartford Life Insurance Company is now The Hartford

THE HARTFORD								
		Return on Investments (net of expenses)				Operating Expenses		
		Rates of Return as of June 30, 2002						
Level of Risk	Investment Options	Quarter to Date	Year to Date	Annualized		Management Fees	Other Expenses	Total Expenses
Low	Hartford Life Fixed Account	*	*	*	*	N/A	N/A	N/A
	Hartford Bond HLS	3.03%	2.29%	7.37%	6.78%	0.51%	0.45%	0.96%
Medium	Hartford Advisers HLS	-10.01	-10.27	-4.82	3.97	0.66	0.75	1.41
	Janus Balanced	-4.34	-3.64	-0.64	8.75	0.87	0.75	1.62
	Hartford Dividend & Growth HLS	-8.62	-4.48	-0.66	5.87	0.68	0.75	1.43
	Hartford Index HLS	-13.65	-13.68	-10.29	2.42	0.43	0.75	1.18
	Hartford Stock HLS	-16.42	-16.87	-10.99	2.44	0.49	0.75	1.24
High	MFS Capital Opportunities	-19.07	-20.18	-11.35	-3.10	1.11	0.75	1.86
	Invesco Technology	-29.73	-34.51	-20.83	-3.20	0.85	0.75	1.60
	Janus Twenty	-11.75	-16.95	-18.27	3.55	0.84	0.75	1.59
	Dreyfus Premier Third Century	-15.66	-17.80	N/A	N/A	0.86	0.75	1.61
	MFS Mass Inv. Growth A	-16.03	-18.46	-11.61	4.63	0.99	0.75	1.74
	Hartford Capital Appreciation HLS	-14.25	-15.34	0.91	7.89	0.68	0.75	1.43
	Hartford Mid Cap HLS	-6.92	-2.96	12.09	19.93	0.70	0.75	1.45
	Franklin Small-Mid Cap Growth	-16.79	-19.23	-1.69	3.44	0.86	0.75	1.61
	American Century International Growth	-2.60	-3.50	-3.28	2.56	1.20	0.75	1.95
	Janus Worldwide	-12.73	-13.67	-7.50	2.31	0.88	0.75	1.63

If you have any questions about the information in this newsletter, please contact your financial services representative or JoAnn Tourtelotte at the State's Bureau of Accounts and Control at 207-626-8420. You can also visit the State's Deferred Compensation Plan website at <http://www.state.me.us/bac/Deferred%20Comp/index.htm>.

The Hartford

Augusta: 207-623-8421
 Maine: 1-800-640-8787
 Outside Maine: 1-888-457-7824
www.retire.hartfordlife.com

ING Financial Advisors, LLC

Augusta: 207-622-4882
 Outside Augusta: 1-800-238-8458
www.ingretirementplans.com

VALIC Retirement Services Company

Maine: 1-800-892-5558, ext. 88631
 Outside Maine: 1-800-448-2542
www.valic.com (for annuity inquiries)
www.valic.com/vrs (for mutual fund inquiries)

ING FINANCIAL ADVISORS, LLC								
		Return on Investments (net of expenses)				Operating Expenses		
		Rates of Return as of June 30, 2002						
Level of Risk	Investment Options	Quarter to Date	Year to Date	Annualized		Management Fees	Other Expenses	Total Expenses
Low	ING Fixed Account	*	*	*	*	N/A	N/A	N/A
	ING Bond	3.21%	2.45%	6.60%	6.16%	0.50%	0.51%	1.01%
Medium	ING Balanced	-5.25	-5.81	-2.07	5.08	0.59	0.75	1.34
	Janus Aspen Balanced	-4.30	-3.54	-0.08	9.96	0.66	0.75	1.41
	Calvert Social Inv. Balanced	-6.80	-8.24	-4.67	2.55	0.71	0.75	1.46
	Fidelity VIP Equity Income	-9.77	-6.50	-3.73	4.00	0.58	0.75	1.33
	ING Value Opportunity	-10.91	-10.67	-1.87	7.85	0.71	0.75	1.46
	ING Index + Large Cap	-12.51	-12.73	-9.45	3.62	0.45	0.75	1.20
High	ING Growth	-15.50	-17.32	-14.77	1.79	0.70	0.75	1.45
	Janus Aspen Growth	-15.88	-15.90	-13.15	2.05	0.66	0.75	1.41
	Fidelity VIP Growth	-18.51	-19.55	-11.41	3.47	0.68	0.75	1.43
	ING Index + Mid Cap	-8.35	-1.62	7.99	N/A	0.55	0.75	1.30
	Janus Aspen Aggressive Growth	-11.46	-19.54	-17.48	1.30	0.67	0.75	1.42
	Pilgrim Small Cap Opportunity	-17.40	-26.54	-2.69	8.81	0.90	0.75	1.65
	ING Small Company	-7.19	-7.30	6.56	8.74	0.86	0.75	1.61
	ING International	-6.93	-11.21	-10.18	N/A	1.15	0.75	1.90
	Janus Aspen Worldwide	-12.46	-13.35	-6.74	3.60	0.69	0.75	1.44

VALIC RETIREMENT SERVICES COMPANY								
		Return on Investments (net of expenses)				Operating Expenses		
		Rates of Return as of June 30, 2002						
Level of Risk	Investment Options	Quarter to Date	Year to Date	Annualized		Management Fees	Other Expenses	Total Expenses
				3 Years	5 Years			
Low	VALIC Fixed-Interest Account	*	*	*	*	N/A	N/A	N/A
	Vanguard Long Term Bond Index	3.60%	2.48%	7.93%	7.93%	0.21%	0.42%	0.63%
	Vanguard Intermediate-Term Corporate Bond	2.80	2.71	7.47	6.67	0.21	0.42	0.63
Medium	Munder Balanced A	-6.88	-7.41	4.28	7.65	1.31	0.42	1.73
	American Funds American Balanced A	-5.65	-2.47	4.77	8.20	0.69	0.42	1.12
	American Funds Investment Co. of America A	-9.15	-7.44	-1.98	7.26	0.56	0.42	0.98
	Pioneer A	-12.34	-9.46	5.03	6.18	1.11	0.42	1.53
	MFS Value A	-7.11	-3.98	3.49	9.99	1.21	0.42	1.63
	Dreyfus S&P 500 Index	-13.64	-13.61	-10.09	2.69	0.50	0.42	0.92
	Calvert Social Inv. Equity	-10.14	-8.62	2.68	7.74	1.13	0.42	1.55
High	Oppenheimer Capital Appreciation A	-16.44	-18.87	-5.41	6.06	1.03	0.42	1.45
	MFS Mass Inv. Growth A	-15.98	-18.36	-11.37	5.00	0.87	0.42	1.29
	Invesco Technology Inv.	-29.71	-34.47	-20.66	-2.89	0.99	0.42	1.41
	Invesco Dynamics Inv.	-21.68	-24.88	-14.26	2.34	1.00	0.42	1.42
	Neuberger Berman Genesis Trust	-5.18	2.09	14.79	10.73	1.15	0.42	1.57
	Oppenheimer Global A	-9.30	-8.02	5.16	9.15	1.12	0.42	1.54
	Putnam International Growth A	-4.88	-3.44	-0.14	5.92	1.13	0.42	1.55

* Fixed Accounts provide a specified rate of return. For current rates, along with an explanation of how they are determined, contact your financial services organization.

How to Make a Rollover into the State's Plan

Rolling over your previous plan account(s) into the State's Plan is easy. Just follow these steps:

- * **Step 1: Contact your selected Plan financial services organization representative at Hartford, ING or VALIC.** Ask that a "Qualifying Rollover Contribution Application" be sent to you. Along with the rollover application you will receive a form letter to send to your previous employer or financial institution asking for proof that you are rolling over pre-tax money from an eligible retirement plan.
- * **Step 2: Mail the letter.** If you are rolling over money from a previous employer's plan, send the letter to your previous employer. If the money you are rolling over is currently in an IRA, send the letter to your IRA financial institution.
- * **Step 3: Send all documentation to your financial services organization.** Send the rollover check, the proof that the money is pre-tax money, and your completed "Qualifying Rollover Contribution Application" to your financial services organization.

Direct or Indirect Rollover: What's the Difference?

There are two types of rollovers — direct and indirect.

Direct Rollover. Your previous employer (or IRA financial institution) sends you a check *payable to the financial services organization* you have selected to receive the rollover. After you forward the necessary paperwork to your selected financial services organization, they will deposit the check into your Plan account. The advantage of making a direct rollover is that you continue to postpone paying taxes on the rollover money.

Indirect Rollover. Your previous employer (or IRA financial institution) sends you a check that is *payable to you*. You must deposit the check into the State's Plan or establish an IRA *within 60 days* of the date on the check. By federal law, if the check is made out to you, your previous employer or financial institution must withhold 20% of the taxable part of your distribution to pay federal income taxes. However, you can substitute money from other sources to make up for the 20% that was withheld, and deposit the entire taxable amount of your distribution into the State's Plan. If you do this, you may qualify for a refund of the withheld amount when you file your income taxes.

Good News! New Annual Limits

For 2002, the annual contribution limit is \$11,000. The limit will increase by \$1,000 each year through 2006. For years beyond 2006, the limit will be increased in \$500 increments, as needed, to reflect increases in the inflation rate.

Completing the Rollover Application

If you want to roll over money into the State's Plan, you must complete the entire "Qualifying Rollover Contribution Application" (sections A through E). Consider the following helpful hints when filling out the form:

Section B – Rollover Contribution Election: Fill in the date of your distribution (that is, the date that is on the rollover check you received from your previous employer or from your financial institution). Check the type of plan the money is coming from (403(b), 401(k), 457(b) or IRA). Then, fill in the amount of the rollover and the plan name/financial institution. You must also indicate if this is a direct or an indirect rollover.

Section C – Participant Certification:

- * If the rollover is from a previous employer's 403(b), 401(k) or governmental 457(b) plan, check Box 1.
- * If the rollover was deposited into a "conduit IRA" after it was distributed from your previous employer's plan, check Box 2 (this means you deposited your previous plan distribution into an IRA before rolling it over into the State's Plan).
- * If the rollover was originally distributed from an IRA, check Box 3.

If you have any questions about the rollover process or about completing the rollover application, please call your selected financial services organization representative. If you have questions about the tax implications of a rollover, contact your tax advisor.